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The national income
and taxation

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THE

NATIONAL INCOME

AND

TAXATION.

BY

THE RIGHT HONOURABLE

SIR LOUIS MALLET, C.B.

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THERE are indications that before long the profound apathy which has prevailed in this country during recent years on the subject of finance and taxation, may be succeeded by a re-awakened interest, and receive some degree of public attention.

The foreign policy of the last two Administrations has culminated in an expenditure during the current year of nearly £100,000,000; and although, if peace is preserved, it may be hoped that considerable reductions in this amount may be made in the future, it is now clear that the average expenditure of recent years will be permanently exceeded.

The politicians, however, who are most keenly alive to the moods and dispositions of the electoral body, do not appear to have found it desirable, or, perhaps, possible, to sound the note of retrenchment or economy. On the contrary, leading Liberal candidates have, for the most part in their recent appeals for popular favour, vied with their Tory rivals in admitting the necessity of a large and liberal public expenditure for the purposes both of war and peace. So great, indeed, has been the change in the sentiments of the British people in this respect, that the temper of mind for which the phrase "ignorant impatience of taxation" was invented, has probably no meaning, and has become unintelligible to the mind of the present generation.

It must further be observed that this remarkable change of opinion has coincided with an unprecedented growth of the public burdens for the normal requirements of the country. At the period succeeding the Repeal of the Corn Laws, when it was still possible for Mr. Cobden to speak of an annual Imperial Budget of £50,000,000, the local taxes

levied in rates did not exceed, according to Mr. Porter, the sum of £7,000,000, making with the Imperial expenditure a total of £57,000,000. The expenditure of the country, both Imperial and Local, at the present time, has reached at least double that amount.

The general answer to criticisms of this description is of course obvious enough. It is said, "Doubtless our expenditure has doubled, but our population has largely increased, and our resources have more than doubled."

In 1841, prior to Sir R. Peel's financial reforms, the population of the United Kingdom was 26,917,591. It is now 36,000,000.

The value of British and Irish exports (the declared value of other branches of our foreign trade was not recorded) was about £50,000,000. It is now (1883) £239,799,473.

The estimated national income in 1843 was £515,000,000. It is now £1,274,000,000.

An income tax of 1d. in the pound produced in 1843 £772,166. It now produces £1,990,000.

The national capital paying probate duty was in 1838 £55,000,000. It is now £140,000,000.

The deposits in savings-bank were, in 1831, £13,719,000; in 1881, £80,334,000; while the number of depositors has advanced from 429,000 to 4,140,000.

The number of paupers in 1849 was in England and Wales 934,000. It is now (1884) 774,310. It is not always added that, while the number has decreased, the cost has risen from £5,039,703, in 1844–5, to £8,353,292 in 1883—or from rather more than £5 to nearly £11 per head.

Wages in the leading industries have largely advanced, often doubled, in the same period. The amount of the national debt has been reduced from £835,676,000 in 1857, to £746,423,000 in 1884; and so on to the end of the chapter.

These are interesting and consolatory facts; but they entirely fail to touch the point raised by the reformers of Mr. Cobden's school.

Their argument was to this effect: The national taxation

is excessive. It is only caused by the burden of a debt mainly incurred for past wars, and by the burden of military establishments which, from our point of view, are unnecessarily large, if the external policy of the country were conducted on the principle of non-intervention, and of avoiding further extensions of empire. This scale of expenditure is not only, as we think, unnecessary, but also dangerous, when your industries are engaged in competition with the whole world. Therefore, we hold that it ought not to be increased except by such gradual and moderate additions as the requirements of a growing community may render inevitable.

This argument may be right or wrong; but it is no answer to it to point to an increased population and doubled resources as a justification of a doubled expenditure. This is merely to leave things as they were, and to prevent the increased wealth of the country from bearing its natural fruit in a diminution of the national burdens.

But whatever opinions are held on this question, it is useful to see how the account stands.

The year 1843 must be taken as the starting-point for the comparison, because it was the first year of the income-tax. The following data are given in round numbers, representing the general facts of the period under review:—

Date.	Population.	National Income.	Taxation.			Amount of Taxation per head.	Percentage on National Income.
			Imperial.	Local	Total.		
		£	£	£	£	£ s. d.	
1843	27,000,000	515,000,000	50,000,000	7,000,000	57,000,000	2 2 0	11
1884	36,000,000	1,274,000,000	72,000,000	34,000,000	106,000,000	3 0 0	8

N.B.—The gross public revenue of £87,205,000 includes the receipt of the Post Office, Telegraph Service, Crown Lands, and other sources of revenue which are not of the nature of taxes.

This is a satisfactory result in its general aspect, but an examination of the items suggests less agreeable reflections.

The diminution of the percentage of taxation on income, will be found to be entirely due to the important fact, that there has been no increase in the charge for debt, which has thus remained a constant quantity, while the national income has more than doubled. The gain from this cause has been so great, that it has more than counterbalanced the loss from increased expenditure.

It must further be observed, that had it not been for the process which has been in operation, by which a part of the debt has been converted into terminable annuities, and by which the capital of the debt has been reduced from £835,676,254 in 1857, to £746,423,964 in 1884, the annual charge for debt would have been perceptibly reduced. This result is the more remarkable when it is remembered that the period during which this reduction has been effected has been one of what are called minor wars of an almost chronic nature.

Omitting the charge for debt, the results are as follows :—

Date.	Civil List and Civil Charges.	Military and Naval Charges.	Total.
	£	£	£
1843	5,631,061	16,159,070	21,790,091
1884	18,731,582	28,909,107	47,640,689
Increase ...	13,100,521	12,750,037	25,850,598

The increase here shown is more than the whole increase of revenue during the period derived from taxation, and is only met by the extra receipts from other sources, such as the Post Office, etc.

It is also more than in proportion to the increase in the national income, large as this has been, if local taxation be included. Here are the figures in round numbers :—

Date.	Population.	Expenditure— Imperial and Local.	National Income.	Per cent.
		£	£	
1843 ...	27,000,000	29,000,000	515,000,000	5·60
1884 ...	36,000,000	82,000,000	1,274,000,000	6·40

In Mr. Gladstone's speech on the national expenditure in the House of Commons, in April, 1883, in a comparison which he makes between the years 1840 and 1882, he

minimises these results by deducting certain items from the account in both periods, in order, as he says, to arrive at a fairer conclusion. The effect is to diminish considerably the apparent increase in the latter year; but with the exception of the special war charges in 1882, these deductions do not appear to affect the complexion of the case. They are as follows :—

1. The cost of collecting taxes.
2. The charges for the reduction of debt.
3. The grants in aid of local taxation.

The first is quite as much a part of the national expenditure as the cost of the army.

The second may be wise or unwise, but is distinctly part of the annual expenditure.

The third, unless it can be shown to be a transfer of local burdens to the nation at large, is equally an addition to the total annual expenditure.

Still we shall be told that there is nothing in these figures to excite alarm, especially when it is remembered how large a part of the increased expenditure consists of local taxation for professed objects of social improvement, and we are assured in the Radical programme "that taxation on equitable principles for objects which the nation approves cannot be on too liberal a scale, and that from this point of view a public opinion may be created, in which taxes ought to be considered as an investment for the general good, and should be cheerfully, and, in the main, easily, borne."

If these ideas prevail, it cannot be expected that there will be any strong popular feeling against the amount of the national taxation, and public interest so far as it can be attracted to the subject, will rather be directed to the distribution and incidence of taxation, than to its aggregate amount.

Even in this direction it may be doubted whether more than a languid interest can be excited, so long as the current of popular feeling is in favour of increased expenditure. It is true that what is called a "readjustment of the incidence of taxation," which forms one of the articles of the Radical programme, has been accepted by Mr. Gladstone

in his recent manifesto. We are told, indeed, in the address to the Midlothian electors, that the "balance of taxation as between property and labour should be adjusted when occasion offers with a scrupulousness which was unhappily too little observed at the time when property had the absolute command of parliamentary action." No one can speak on such a subject with so much authority as Mr. Gladstone, but if this be so, we shall still find that it is not so easy to "readjust with scrupulousness" when taxes are being imposed, as it is when they are remitted.

If, for instance, it should be discovered that the rectification of the balance required the remission of indirect taxes, such as those on tea or tobacco, which press upon the poor, the adjustment might be made either by reducing these or by augmenting the taxes paid exclusively by property; but while the first would be the natural course if the public burdens were to be diminished, the latter would alone be possible at a time of increasing expenditure. It is needless to say that to reduce taxes on the poor without raising them on the rich, would benefit the first and would not injure the last; but to raise them on the rich without relieving the poor, would injure the former without benefit to the latter. Such a prospect is not tempting to a Chancellor of the Exchequer who desires popularity.

It may be added that the history of taxation in this and in other countries affords no instance of "scrupulousness of adjustment" combined with a lavish and increasing expenditure. On the contrary, it has usually been found that when governments attempt to raise a revenue which bears an undue proportion to the earnings of the people, as in the United States of America after the Civil War, and in France and Germany at the present time, the only method is to get the money how and where they can, not only by avoiding unpopular taxes, but also by resorting to popular expedients, among which duties upon foreign trade, into which the protective element often largely enters, invariably find a place.

It is possible, however, that there will be some popular feeling which may find expression in the new House of Commons in favour of transferring to property in some

form or other a portion of the taxation now falling on articles largely consumed by the working classes. It becomes, therefore, important to inquire what form such proposals may assume.

The truth is that the remission of the sugar duties and the reduction of the duty on tea, have gone far to knock the bottom out of the argument of those who rest their advocacy of a further remission of indirect taxation, on any less comprehensive principle than that of the radical objection to all indirect taxes, as mischievous impediments to trade and grossly wasteful in their collection; and appeals to the British public on these latter grounds, have always failed in securing popular support, owing to the widespread belief or superstition, that high taxation on spirits, beer, and even tobacco, are desirable in the interests of morality.

Whether it may be possible, on the plea of the undue pressure of taxation on the working class, to create a public opinion strong enough to complete, at all events, the freedom of the breakfast-table, it is not easy to say; but the first step is to show that such undue pressure exists, and it is with a view of contributing to this inquiry that the following remarks are offered.

It is obvious that the data for all calculations as to the "Incidence of Taxation" are of a very imperfect kind. For this purpose it is necessary to ascertain both the amount of the national income, and the share of it which falls to the lot of the different classes of the people whose interests it is desired to compare.

We have, therefore, first to ask, What is the national income?

There appear to be two methods by which it can be computed.

These have been recently described and employed by Mr. Edward Atkinson, of Boston, U.S., in his valuable work on the "Distribution of Products," as follows:—

"Land, labour, and capital" (he says) "are the three factors in production. By the co-operation of these forces an annual product is made. The term annual fits the case, because the year represents the course of the four seasons and the succession of crops. A small part of each year's

annual product, commonly called 'quick' or 'active' capital, must be carried over to start the next year's work, as a small part of last year's product had been brought over to start this year's work, one proportion balancing the other. The fixed capital seldom exceeds in value two years' production. It therefore follows that all profits, all wages, all taxes, in fact, all consumption whereby existence is maintained, must be substantially drawn from each year's product. But in order that this product may be distributed and consumed—since no man, economically speaking, lives for himself alone—the various products of the year must all be exchanged by purchase and sale, and, therefore, must all be reduced to, and measured in, terms of money, except that part of the annual product which is consumed upon the farm by the farmer and his family without being sold. With this exception, the whole product of the year must be substantially converted into terms of money."

"This remainder of the annual product, at whatever sum of money it may be finally valued, when sold for the last time and distributed for final consumption, constitutes the value of the product converted into terms of money, from which sum all money profits, all money wages, and all money taxes must be derived. There can be no other source."

* * * *

"The total sum of money which represents the value of all that is produced at its point of final consumption is and must be, the final measure of that part of the annual product which is bought and sold."

"On the other hand, by ascertaining what the total sum of taxes, the sum of all wages, and the sum of all profits, may be, we can again approximate to the total value of the annual product."

"No absolute results can be reached by either method, but approximate results can be fairly set off, one against the other."

Mr. Atkinson accordingly proceeds in the first instance to give us the best estimate he can make of the total annual product of the United States, which he puts at about $10,000,000,000—(an estimate confirmed by Mr. Nimmo, the Chief of the Bureau of Statistics, at Washington)—and

then compares it with the results of the estimate made in the Census Department, of the amount of property assessed for taxation. He thus obtains an approximate idea of the profits and savings in the Census year—and he arrives at an estimate of the earnings of the nation, in the shape of salaries and wages, by a careful analysis of the occupations of all persons engaged in mental or manual work, and of the rate of wages and salaries actually paid. These data, together with the proceeds of taxation, constitute, according to Mr. Atkinson, the national income, and correspond with the aggregate value of the annual product sufficiently to justify both methods.

On this view of the subject it must be observed that it does not appear how far due allowance has been made for the addition to the value of the annual national product caused by foreign trade.* Probably, however, in the case of the United States, the question is not of so much importance as to vitiate the general result of the estimate, because the proportion of the foreign to the home trade of the States is comparatively small. But in the case of the United Kingdom this element would complicate the question.

There is another consideration to which it is necessary to advert. The national income of the United Kingdom is largely augmented by the sums annually received in the shape of interest and dividends on foreign loans and investments. These form no part of the annual product, but are the interest on a portion of that product in preceding years, which has been saved instead of being consumed or invested in the country. The interest or profits received on this portion of the savings of the country are an addition to the value of the annual product in succeeding years, and in estimating the value of that product for a particular year, with a view of comparing it with the national income, their amount should be added.

In this country the English capital in foreign investments has been estimated in 1880 as from £1,500,000,000 to £2,000,000,000 sterling, and the interest and profits at about £100,000,000.

* Ricardo denies that any addition is made to value by foreign trade, but the opinion is open to question.

If the value of the annual product of the United Kingdom could be ascertained, the latter sum would have to be added, but no complete materials for an official estimate of the aggregate results of English industry exist, and statisticians have, therefore, had recourse to the second method, but with an important difference.

Two estimates of the national income have been made in recent times, which have been generally accepted as sufficiently accurate, to justify their use as a foundation for discussions on questions affecting the national progress, and the condition of the people, viz. those of Mr. Dudley Baxter and of Mr. Leone Levi.

In both of them, one of the most important elements in the computation is supplied by the Returns of the Assessments to the Income Tax, under the several schedules.

But it seems doubtful whether, in the popular acceptance of these estimates, it has been generally understood that very conflicting opinions have been held, and are apparently still held, by eminent economists, as to the principle upon which such estimates should be made.

Mr. John Stuart Mill, in the preliminary remarks to the "Principles of Political Economy," distinctly denies that the National Debt forms a part of the national wealth, or the interest upon it a part of the national income.

He says, at page 9 :—"The position of fundowners, or owners of the public debt of the country, is similar to that of mortgagees. They are mortgagees on the general wealth of the country. The cancelling of the debt would be no destruction of wealth, but a transfer of it; a wrongful abstraction of wealth from certain members of the community for the profit of Government, or of the taxpayers. Funded property, therefore, cannot be counted as part of the national wealth. This is not always borne in mind by the dealers in statistical calculations. For example, in estimates of the gross income of the country, founded on the proceeds of the income tax, income derived from the funds, is not always excluded, although the taxpayers are assessed on their whole nominal income, without being permitted to deduct from it the portion levied from them in taxation to form the income of the fundholder. In this

calculation, therefore, one portion of the general income of the country is *counted twice over*, and the aggregate amount made to appear greater than it is by about £30,000,000."

There can be no possible mistake as to Mr. Mill's meaning. It is abundantly clear that he considered that the income of the fundholders ought not to be included in the estimate of the national income. But if this view be accepted, it has been well argued by Mr. Macleod that precisely on the same grounds other portions of the national income ought to be excluded, *e.g.* the incomes of all persons paid by the State, civil and military, as well as those of railroads and public companies, indeed, the incomes of all persons who are not the original producers as well as the final consumers of any portion of the national product.

Mr. Macleod gives us an instance which serves as well as any other to illustrate his meaning—the case of a person with a large establishment of servants and dependents. Such a person with an income, say, of £50,000 per annum, on which sum he pays income tax, and which is justly considered as an item in the income of the nation—may pay £2,000 a year to an agent, £500 to a secretary, £300 to a cook, and so on. Each of these sums will justly be liable to income tax, and be included in the account of the national income ; and yet, if the principle asserted by Mr. Mill be sound, the income of the original recipient, which has already paid income tax, without any deduction, for those portions destined to become the incomes of the agent, secretary, and cook, will, to this extent, be counted twice over in the calculation of the national income, the truth being that (with the exception of that part of the annual product which passes at once, without being exchanged, into the consumption of the original producer, as in the case of some farm produce) "every man's income is paid," as Mr. Macleod observes, "out of the income of some one else."

This view raises several curious questions. If the National Debt is part of the national wealth, and the interest on it part of the national income, might it not be contended that the larger the debt, and the higher the rate of interest, the greater would be the national wealth, or the national income?

This would be a startling conclusion ; but we will give another instance. The cost of the army, navy, and civil services is about £48,000,000 per annum. Is this sum part of the national income? It is certainly charged with income tax, and forms part of the sum assessed to that impost. It is included in the estimates of the national income. If it be rightly so included, let us suppose that the salaries and pay of all the servants of the State were doubled. Would the national income be increased by such a measure to that extent? And could it be maintained that the national wealth had been increased by such a measure?

This brings us to the core of the subject: the answer seems to be, that as debt represents value for service rendered, it ought to be included in any estimate of national wealth, in the same way that the value of the services rendered by the servants of the State, or by any other class of the community, ought to be so included.

In this sense, and as regards the creditors and the servants of the State, the national wealth and income would be augmented by an addition to the debt or to the cost of the services.

But in estimating the effect of such augmentation upon the sum of the national wealth or well-being, it is necessary to consider the other side of the account, and it will then become clear, that whatever addition is made to the national wealth in one direction, a corresponding reduction may take place in others—the question as to whether or not the aggregate wealth of the community is increased by additions to its debt, or to its services, turning entirely on the balance of advantage or disadvantage which is the result.

Mr. Sidgwick, in his work on the "Principles of Political Economy" (Book I., c. 3), discusses this question at length with especial reference to the argument of Mr. Macleod; but his conclusions, somewhat hesitating as they appear to be, are not satisfactory.

Both he and Mr. Mill seem to have missed the point.

They ask, how can a country be richer because one Englishman lends a portion of its wealth to another? But this is not the question. The question is this:—A. lends a portion of his wealth to B. B. may either use this wealth

productively or unproductively. Let us assume that he consumes it unproductively, and destroys it once for all. The country is so much the poorer, and so is B., but A. is still possessed of the debt due to him, consisting of the right either to receive back the capital or the interest. A., at least, is as rich as before; his wealth remains, and so far as it forms part of the national wealth, the nation is as rich as before; and this right, or debt due to him, is a part of the national wealth, whether regarded as capital, or as income in the form of interest. In any estimate of the national wealth, or of the national income, this debt must, therefore, certainly be included, and the interest on it is as certainly a part of the national income. The loss of wealth or income resulting to the nation from the transaction will be found to consist in the diminution of B.'s share of it, not in that of A. In the case supposed, the country would be poorer and its income less; but the debt held by A., and the interest paid to him, would none the less be part of the national wealth and of the national income.

Let us take the other supposition, viz. that B. employs the sum borrowed productively. Here it is obvious that he might increase his own wealth without diminishing that of A.; and in any estimate of the national wealth, or income, both those of A. and B. would necessarily be included, and the country would be the richer by the transaction; that is, it is richer, because one Englishman has lent a portion of its wealth to another.

In both cases, the debt, and the interest on it, constitute a part of the national wealth and income, although in the first the country is the poorer, and in the second the richer, by the transaction. In neither is this portion of that wealth or income counted twice over, as Mr. Mill asserts.

Here then we find the answer to the question: Is England the richer for her National Debt?

If the money borrowed and spent has been expended, whether in war or otherwise, so as to render her richer than she would have been if it had not been so spent—it is idle to say that she would or might have been richer still, in a case which is purely imaginary—viz. one in which the causes of such war, or other expenditure, had been absent. If such war or other

objects of expenditure were unnecessary, useless, or unprofitable, then England would be the poorer for them, but not in that portion of her wealth held by the public creditor. This remains, and still forms, part of her wealth. She will be poorer in that part of her wealth held by the debtor, whose share in the national wealth has been *pro tanto* reduced, and which cannot be, and is not, included in the estimate, because it has altogether ceased to exist. England, therefore, is either richer or poorer by reason of her debt, according as it has been incurred for purposes which have made her richer or poorer than she would have been without it. The mere fact of debt proves absolutely nothing, and I altogether dissent from Mr. Sidgwick in thinking that "the inference implied in reckoning the funds as part of the country's wealth is, that England, or a railway, is worth more, because it has cost so much—still less that it is worth more because the money had to be borrowed."

The fallacious nature of Mr. Mill's view is suggested by another consideration. It has been observed that wherever, as in the United States of America, the materials exist for such a calculation, there are two methods of estimating the national income. These, if correct, ought to lead to results which approximately correspond, and one method would thus afford the means of testing the other.

In the estimates given by Mr, Atkinson this correspondence is remarkable. The results of both methods are sufficiently alike to justify the presumption that both proceed upon a sound principle.

But it is essential to observe that this correspondence is impossible if Mr. Mill's argument is admitted. In the estimates of the national income afforded by the second method, viz. that of ascertaining, as far as may be, the actual money income and earnings of the different classes of which the nation is composed, Mr. Atkinson includes all money profits and interest, all money wages, and all money taxes.

He says, at p. 29, "The total sum of money which represents the value of all that is produced at its point of final consumption is, and must be, the final measure of that part of the annual product which is bought and sold.

Therefore all profits, wages, and taxes constitute a portion of this lump sum. In order to ascertain what the rate of profit, the rate of taxation, or the rate of wages may be, we must ascertain what this lump sum is, and how it is divided. On the other hand, by ascertaining the total sum of taxes, the sum of all wages, and the sum of all profits, we can again approximate the total value of the annual product.

Now it is evident that if the total money value of the annual product is composed of profits, interest, wages, and taxes, the sum of profits, interest, wages, and taxes must constitute the total value of the annual product. The two modes of computation are only two different methods of arriving at the same result.

But Mr. Mill excludes the interest on the National Debt, which is the income of the fundholder, on the grounds already stated; and his argument equally applies, as has been seen, to all taxes and to everything which is of the nature of what Mr. Dudley Baxter calls "a second-hand income," which, having been paid by those whose incomes are already included in the estimate, cannot, as it is urged, be again separately specified, as in that case they would be included twice.

This appears to be a fundamental error, and if so, it is a fallacy so serious, that until it has been thoroughly examined no profitable discussion as to the incidence of national taxation is possible.

The error seems to be this: Let us take the case of a tax as an illustration. The sum paid by a taxpayer as a tax constitutes no part of his income. It is part of his expenditure. He does not receive it; he pays it. His income on which his income tax is assessed does not consist of what he pays, but of what he receives. In the case of a tax, whether levied to pay the interest on public debt or to pay the current expenses of the State, it is not the tax which is included in the estimate of the taxpayer's income, but the service received by him as an equivalent for the tax. This is his income, and this is properly included as part of the national income. The income of the man with *e.g.* £50,000 a year consists not in the money which he pays away, but in whatever he receives in exchange for it.

The services of government, his houses, his servants, his equipages, his library, his meats and wines, his box at the opera, his yacht, the expenses of his public life, his pictures, his entertainments, his travels, and so on—these things constitute his wealth, and so far as they are annually consumed, his income, and these must be included in terms of money in any estimate of the national wealth and income.

On the other hand, the taxes paid become the income of those to whom they are paid—the money in which they are paid being merely an order, so to speak, for so much of the annual product which may either be consumed by the recipient, or again passed on, in exchange for services rendered, to another person, in which case another income is called into existence.

In estimating the national income, therefore, by the second method, it is necessary to include all profits and interest (Schedule A, B, D), all interest on debt (Schedule C), all salaries and pay of Government servants, civil and military (Schedule E), and all earnings in the form of salaries and wages not paying income tax, comprehending the pay of soldiers, sailors, and labourers of all kinds in the service of Government.

It is obvious that unless we include all these general incomes, the total national income cannot be made to correspond with that which results from the use of the first method—viz. that which consists of the "total sum of money which represents the value of all that is produced at its point of final consumption."

This sum can only correspond with the sum of the values of all the services for which it is exchanged.

On the one hand we have a total of the quantities of the material products of the community—food, shelter, clothing, etc.

On the other, we have a total of the quantities of all the services of every member of the community entitled to a share in such products.

On what will the money value or price depend? On the relation between the total of the objects (whether products or services) to be exchanged, and the total of the

instruments of exchange in the different forms of money and credit.

An example may make this clearer.

Suppose a country, entirely self-contained (to give the simplest case), with a population of one million, which, by one year's work, produces a given quantity of the bare requisites of human subsistence, but with no surplus product whatever. Suppose further, to avoid all complications from this cause, that this society is provided with a sufficient currency on a metallic basis (whether of one metal or of two rated metals would in such a country be a matter of absolute indifference) which always bore a constant relation to the demands upon it, so that prices would not be affected by relative changes in its volume.

Here the sum of the earnings will exactly correspond with the sum of the annual product in terms of money.

An invention is now made, by which the productive power of labour is at once doubled. The same population, with the same amount of labour, produces double the quantity of everything, including currency.

In these circumstances, let us suppose, in the first place, that the people in question consume in their own persons this doubled produce. In this case the value of the annual product in terms of money will be double its previous amount.

In the second place, let us suppose that, instead of consuming this surplus product themselves, the population gradually add to their number 500,000 persons, who will be engaged in providing what are called "non-productive" services—such as lawyers, clergy, doctors, public servants, authors, actors, and opera dancers.

Each of these persons will draw an income from the community as an equivalent for the services which they render, which will be ultimately expressed in the final consumption of the surplus product, which is, by our supposition, one-half of the whole. This exchange of services will add to the general purchasing power of the community in the proportion of one-third. In this second case, therefore, the national income, and the value of the annual product, owing to the creation of new demands on the part of the

community, will have been increased threefold, instead of only twice, as in the first case.

This national income will thus have been composed not only of the value of the products representing the services of the producers, but also of the value of the services rendered by the "non-producers."

But in both cases alike, the purchasing power of the community, in terms of money, will be the sum of the incomes of all the people; and this will necessarily be the same as the total value of the annual product for which it is exchanged at the point of final consumption, because the value in money is merely the expression of the relation of the two exchangeable quantities, always excepting (as before observed) that part of the annual product which is neither bought nor sold.

This is a long digression, but it has been necessary to render the estimate of the national income, which must be the foundation of all calculations as to the incidence of taxation, something more than an illusion, and to justify the criticism which it has been necessary to make on Mr. Mill's theory, and the conclusions of Mr. Dudley Baxter and Mr. Leone Levi.

Mr. Baxter, writing in 1867, gives the income of the "Productive Classes" as £479,000,000, that of the "Auxiliary" as £196,000,000, and that of the "Non-Productive" as £138,000,000, with a total national income of £814,000,000. And he adds:

"The net income of the United Kingdom—the original earnings, out of which the nation provides food, clothing, and pays all taxes and expenses—may be taken at from £500,000,000 to £600,000,000. The second-hand, or dependent income, which is paid out of the original earning, and gives a deceptive magnitude to the National Income Roll, is from £260,000,000 to £210,000,000."

Mr. Leone Levi, writing in 1885, states that the "income, apparently amounting to £1,274,000,000, is the gross income of the people, including much which is a simple transfer from hand to hand. The net income of the nation is probably less than £1,000,000,000 per annum."

But if there is any truth in the foregoing remarks the

distinction here made between gross and net income is altogether fallacious. What Mr. Baxter calls the income of the Productive Classes is no more the net income of the country than the income of an opera dancer. If an attempt be made to ascertain what is really the net income of the country, it will be found that it becomes necessary to whittle away one item after another, until nothing is left but the savings, that part of the income of the year which remains after all the services of the community have been remunerated, and which does not pass at once into final consumption.

The income of the nation, then, is the aggregate of the incomes of all its individual members, and this should correspond, if Mr. Atkinson's view is correct, with the value of the annual product both of labour and exchange, plus the sum derived from foreign investments, in terms of money.

This is the gross income, and it is this which apparently should serve as the basis for all calculations as to the incidence of taxation upon the different classes into which the nation is divided.

Adopting this principle (which, however, it must be again observed, is at variance with the views of the distinguished authorities to whom reference has been made), the national income of the United Kingdom in 1883-4, the last for which the income tax returns have been published, was £1,289,000,000, and in 1882-3 £1,274,000,000.

Of this sum we have said that the joint amount of Imperial and Local Taxation formed about 8 per cent.

It is a coincidence worthy of remark, that this percentage very nearly corresponds with that of the National, State, County, and Municipal Taxation of the United States of America, on the income of the Union, which, according to Mr. Atkinson, amounted in the last census year to 9,000,000,000, dollars (after deducting domestic consumption), while the total taxation was 700,000,000 dollars.

But it must be remembered, that while, owing to the gigantic efforts made by the United States to pay off debt, the burden of taxation in the Union is steadily and rapidly diminishing by the double process of an increasing income and a diminishing taxation, there is too much reason to fear that the taxation of the United Kingdom will in future

more than keep pace with the growth of the national resources.

We have also seen the process by which our statisticians have arrived at their conclusions as to the distribution of the national income between different classes.

The results are exhibited by Mr. Leone Levi in the following table for 1882-3 :—

Incomes.	1882–3.	Percentage.
1. Gross amount of property and profits assessed to income-tax	£613,000,000	47·70
2. Income of Middle and Lower Classes	140,000,000	10·90
3. Earnings of Working Classes	521,000,000	41·40
	1,274,000,000	100·00

What is the incidence of the taxation of the United Kingdom on these three classes?

It is necessary to say at once that under our present fiscal system no answer can be given to this question which will represent the real facts.

If it were attempted, for instance, to raise the whole revenue of the country by taxes on such articles as beer, spirits, tea, and tobacco, it cannot be supposed that the upper classes would contribute nothing more than the amount of those taxes on the quantities of such articles as they personally consumed; nor, on the other hand, if the whole revenue were raised by taxes falling directly on the latter classes alone, that the effect would not soon tell upon wages.

It seems only possible to ensure the final payment of a tax by the person on whom it is intended that it should fall, by imposing taxation in such a way as to leave the relative position of producer and consumer, of capital and labour, unchanged. An income tax, equally levied on every man's income and earnings, would fulfil this condition.

But as attempts have recently been made by high

authorities, founded on Mr. Levi's figures, to show that the working classes at present bear an undue share of the national burdens, it may be useful, without accepting them as adequate, or as resting on any solid foundation of fact, to take them as a basis for discussion, on the distinct understanding, however, that they are only used as the chosen weapons of the assailants of the existing fiscal system in a political controversy, and with no kind of belief that they help us very much in the discovery of truth.

In order to present as complete a view as possible, let us then endeavour to form some approximate estimate of the amount of taxation borne by each of these classes respectively. We will begin with the working class, as the most important for our purpose, and in some respects the most easy to deal with.

Mr. Leone Levi gives the number of this class as 26,000,000, or 5,600,000 families. It will be convenient to take the latter—the family of 4·67—as the unit in the following calculations.

We have 5,600,000 families with an annual income of £521,000,000. What are the taxes which they pay?

It would seem to be a very outside estimate if we assume that this class pays its full share per head of the indirect taxes (leaving out wine, which is, of course, exclusively borne by the upper classes). On tea and tobacco this certainly is very far from the truth; and if the average is restored by beer and spirits, it is due to the excessive, and not to the necessary, use of them. But, upon this assumption, the whole amount of Imperial taxation which falls upon this class will be about £32,000,000. This practically corresponds with the statement made by Mr. Gladstone in Midlothian last year, that the working class contributes two-fifths of the Imperial taxes, two-fifths of £72,000,000, being £31,000,000.

This amount of taxation will be found to be at the rate of about 6 per cent. The family income, as we have seen, the unit of our calculation, is £83, upon which 6 per cent. is nearly £5.

But the application of another and more practical test leads to the opinion that this is an excessive estimate.

It will probably be thought that for a working man's family of 4·67 persons, an allowance of two gallons of beer, two ounces of tobacco, and half a pound of tea per week, will be sufficiently liberal (in the case of the last, and, perhaps, the most essential article, the allowance here made is nearly double the average consumption).

The taxation on these quantities will be about £3, or on an income of £83, hardly 4 per cent.

It can hardly be doubted that the higher estimate is the result of the taxes on spirits, for which no allowance has been made in the second estimate.

To this must be added the share of local taxation borne by the working class.

As it must be presumed that the statement was made on the best official authority, the estimate given by Mr. Gladstone in his address of November last to the Midlothian electors may be accepted as approximately correct.

Mr. Gladstone stated that it was believed that the working class, or labour, contributed to the local taxation of the country in the proportion of one-fifth.

The amount of local taxation paid in rates was, in 1881-2, £34,000,000.

A fifth part of this sum is £6,800,000, which, upon an income of £521,000,000, is about $1\frac{1}{3}$ per cent.

If this be added to the percentage paid by this class in Imperial taxes, it appears that the wage-earning portion of the community contributes to the national burdens, both Imperial and local, at the rate of 7 per cent. on their income according to the first, and at the rate of only 5 per cent. according to the second, of the above two estimates.

It is less easy to arrive at any clear result in the case of Mr. Leone Levi's second class, owing partly to the difficulty of ascertaining the number of persons who compose it. We know, however, that the income of the family unit must be under £150 per annum (the income tax limit), and as this class probably contains a smaller proportion of families than either the upper or lower classes, we shall not be very far wrong in assuming 5,000,000 to be about their number.

* By the returns since published, it amounted in 1882-3 to nearly £36,000,000 !

This would give a family income of £130, as against £83, in the working class.

The taxation of this class consists of a share in the Customs and Excise, probably some small proportion of Stamps, which it is difficult to estimate—but for which a slight allowance should be made—and local taxes.

We will assume the share of the Customs and Excise to be at the full rate per head, although this is no doubt very excessive, and, in the absence of other data, allow the same percentage on income for local rates, as in the upper class, which is obviously excessive. If £500,000 be added for Stamps (death duties, etc.), the result will be—

Indirect Taxes	£6,000 000
Stamps	500,000
Local Taxation	5,000,000
	£11,500,000

This would show a rate of taxation on the income of the second class (£140,000,000) of about 8 per cent.; but it can hardly be doubted that this is too high an estimate.

We now come to the upper or income tax paying class, which will consist of the remaining 5,000,000 persons. This number, with an income of £613,000,000, gives an average income of £122 per head, or of about £570 per family of 4·67 persons.

This class will have to bear the following taxes :—

	1884.
Property and Income tax	£10,718,000
Taxes (Land and House)	2,875,000
Stamps, exclusive of Fees...	11,000,000
Licences	2,000,000
Share of Customs and Excise	6,000,000
Wine	1,250,000
Imperial Taxes	33,843,000
Local Taxes, probably under-estimated ...	21,200,000
Total ...	£55,043,000

This sum on an income of £613,000,000 shows a percentage of 9 per cent.

This rate of taxation on the upper classes may appear to fail in its application to particular cases. For instance, it is not probable that a man with the average family income of the class (£570) will find that he pays in taxes £51 per annum, but this must be taken as evidence of the large share of taxation borne by property, both in the shape of death duties and of local taxes, and probably also by those who bear the charges on commercial transactions.

So far the results of our inquiry do not support the view that the working classes bear an undue share of the national burdens; but we are here met by the argument, which has recently been revived in connection with this subject, that "equality of taxation as a maxim of politics means equality of sacrifice," and that the first of Adam Smith's well known canons of taxation, viz. that the subjects of every state should contribute to the support of the government in proportion to the revenue which they enjoy under its protection, is not consistent with this maxim, for that to take £5 from a man with £100 a year imposes a greater sacrifice on him than to take £50 from a man with £1,000.

If sacrifice is to be taken, instead of revenue, as a basis of taxation, it will be seen at once that it opens a wide and most unprofitable field of controversy. Nor is it apparent why money, which is taken as the measure of all other values, should be discarded as a measure of sacrifice.

The theory will hardly bear the test of close economical reasoning. Two men perform the same amount of work in a given number of years, and earn the same reward or revenue. The one spends all his earnings year by year; the other saves half of them. At the end of the period the last has double the income of the first. On the principle of equality of sacrifice, it is not apparent why one man should pay more to the State than the other. They have both incurred precisely the same sacrifices in earning the amount of the tax; but on Adam Smith's principle, which is that every man should contribute in proportion to the revenue which he enjoys under the protection of the State, it becomes possible to tax the second man double, which is

accordingly done by levying a fixed percentage on his income. The maxim of equality of sacrifice would, if strictly applied, carry us in a direction very different from that which its advocates desire. It is forgotten that capital is merely accumulated labour or its equivalent.

The idea appears to have its origin rather in the region of sentiment than in that of reason; and if it is entertained, it becomes impossible to arrive at any consistent or intelligible principle of action. Every man will form his own notion of what equality of sacrifice implies. It might be argued, with apparent reason, that it would be a less sacrifice for a man with £100,000 a year to pay £80,000 in taxes than for a man with £100 a year to pay £10, and yet the first would pay at the rate of 80 per cent., while the other would pay at the rate of 10 per cent.

No line or limit is possible.

It is probably from some consciousness of the hopelessness of adjusting any scale of relative sacrifices that those who have put forward this proposal have fallen back upon another principle, originally suggested by Bentham, and adopted by Mr. Mill, viz. that the "necessaries" of life should be exempted from taxation, and that a certain minimum income, supposed to be sufficient for this purpose, should be left untaxed.

But this principle is scarcely less unsatisfactory than that of equality of sacrifice. It is hardly less difficult to find a measure of what is necessary than a measure of relative sacrifice. It is obvious that what is necessary for one man is quite different from that which is necessary for another. The standard of necessaries varies in every country, and is progressively advancing with advancing civilisation. It varies from man to man, and from class to class, and it would be a waste of time to discuss it.

Hence the proposal to cut short all debate by fixing an arbitrary sum assumed "to be ordinarily sufficient to provide" (in Mr. Mill's most elastic language) "a moderately numerous labouring family with the requisites of life and health, and with protection against habitual bodily suffering, but not with any indulgences," an arrangement which, as he justly adds, "would constitute a reason, in addition to

others which might be stated, for maintaining indirect taxes on articles of luxury consumed by the poor."

This is an unanswerable argument, but in using it Mr. Mill appears entirely to have forgotten his principle of "equality of sacrifice."

How can this principle be reconciled with such taxes as those on spirits and tobacco, which impose no sacrifice whatever on those who abstain from them because they dislike them, and who thus escape all contribution to £25,000,000 of the national revenue?

There is not even the pretext of making sacrifice the measure of taxation, its amount being solely dependent on a taste for articles which are a source of pleasure to one man and of pain to another. There is no possible principle on which such taxes as these can be justified, except by those who regard them as penalties on vicious indulgence.

But whatever may be said of Mr. Mill's inconsistency on this point, his statement is unassailable that "the immunity extended to the income required for necessaries should depend on its being actually expended for that purpose, and that the poor who, not having more than enough for necessaries, divert any part of it to indulgences, should, like other people, contribute their quota out of those indulgences to the expenses of the State."

It is, therefore, not a little remarkable, that in reviving this proposal for the exemption from taxation of the income required (as it is assumed) for the necessaries of life, all reference should have been omitted to the obvious and essential condition with which Mr. Mill accompanied it. And yet it would seem, from Mr. Chamberlain's remarks on the incidence of taxation in his speech at Hull last August, and also from the language of the Radical programme on the same subject, that this point has been entirely overlooked.

With the single exception of the duties on tea and coffee, which only yield between four and five millions a year, there is no article consumed by the poor the consumption of which is not largely in excess, even on the most indulgent estimate, of what is necessary to provide "the requisites of life and health," and the argument for exempting the

necessaries of life from taxation becomes curiously out of place when it is applied to a system from which nearly all taxation on the actual necessaries of life has been carefully and anxiously excluded.

In the next place, however possible such a measure might be, if the poor were taxed directly, how is it to be applied in a country where four-fifths of the taxes which they pay are levied on articles of consumption. It is possible that by reducing the tea duty from 6d. to 3d. per lb. the revenue might be so increased by increased consumption as to be more than doubled—in which case the rate of taxation would be still heavier, while by raising the tax to a prohibitory rate, the poor would be relieved from paying anything in money, the sacrifice exacted from them being the same by diminished enjoyment.

Again, if we speak of necessaries, what can be more necessary than good government, especially for the poorer and more helpless classes? It is to them a vital question. Without the protection of government they would infallibly be reduced to a state of slavery. For a poor man, therefore, payment out of his earnings for government is scarcely less necessary than payment for the bread he eats. If it is said that a man cannot live with less than £50 a year, minus taxes, it is as easy to say that he cannot live on less than £55 a year plus taxes—one limit is as good as another. The whole question turns on what is to be the standard of living. Sound fiscal principles enjoin that this standard should be so fixed as to include taxation.

It may seem unnecessary, after what has been said, to follow this subject farther, but it may be as well to examine from the point of view which has been taken figures given by Mr. Chamberlain in the speech to which reference has already been made.

By omitting local taxation, which is more than a third of the whole amount, Mr. Chamberlain arrived at the conclusion, after deducting £12 per head from the income of all classes for the "necessaries" of life, that the working classes pay at the rate of 13½ per cent. on their incomes, while the upper and middle classes only pay 6 per cent., or less than half.

Mr. Chamberlain's classification is open to serious objection, for he includes in the latter class all those who, without being in the receipt of wages, are nevertheless below the income tax limit; but taking his basis for the purpose of argument, and adding the local taxes in the proportions which have been already given, we find, after the omission of the taxes on spirits and tobacco, which, however legitimate and useful in moderation, cannot be considered as in any sense necessaries of life, leaving the whole of the revenue from beer, much of which is probably drunk in excess, and, above all, allowing to the working class its full share per head of tea and coffee and beer—that the incidence of taxation is, as nearly as possible, 9 per cent. on both of the two classes into which Mr. Chamberlain divides the population, instead of being, as he states 13½ and 6 per cent. respectively. It should be added, that although the percentage of taxation on working class incomes which are below the average, such as those of many agricultural labourers, is necessarily higher, this class is especially that which contributes nothing to the rates.

The plea, therefore, for a readjustment of taxation on grounds of fiscal equity appears to be altogether inadmissible, and the fabric of injustice falls to the ground.

On a review of these facts it seems difficult for an impartial person to resist the conclusion, after making every allowance for their loose and general character, and the fallacious nature of all averages, that, whatever may have been the case in former times, "the exclusive control by property of parliamentary action" has not prevented successive finance ministers from gradually relieving our fiscal system from all reproach, of being, at least in intention, either unjust or oppressive to the working classes, and that Mr. Gladstone's apologetic language in the address to the Midlothian electors last September was quite unnecessary and liable to misconstruction.

There is doubtless one very important consideration which must not be left out of sight. All indirect taxes on articles of consumption take out of the pocket of the consumer a much larger sum than ever reaches the exchequer. This it is impossible to estimate, but it cannot

be doubted, that the burden of all such taxes is considerably greater than the revenue accounts would lead us to suppose.

But in the present stage of popular intelligence and morality, the substitution of direct taxes for those now levied on beer, spirits, and tobacco, would probably be in the highest degree unpopular with those who pay them, and would have this serious drawback, that it would transfer a large part of their burden from the intemperate and self-indulgent to the provident and frugal.

The foregoing calculations have been necessary for popular and controversial purposes. So long as public men and politicians resort to the kind of arguments which have been examined, they must be met with their own weapons; but, as has been already observed, they are of little value from a scientific point of view.

Without going so far as some economists, in thinking that wherever taxes are first imposed they are so diffused and distributed in the processes of exchange as to render all elaborate attempts at a nice adjustment of them a matter of comparative unimportance, it is undeniable that under no system of taxation can any class escape a share of the burden, and, least of all, the most helpless and improvident class. It is conceivable that if a direct tax were imposed on the working classes they might be unable to recover the whole of it by a rise in the rate of wages. It is not easily conceivable that a tax on capital would not be gradually diffused throughout the community, and ultimately affect wages, and be borne, in a large proportion, by the working class.

In the case of a country which was self-contained, and had no external trade, there would be much to recommend some self-acting system of taxation of this description; but with international intercourse, and foreign competition, it would be impossible to rely on its operation, and it becomes important, as far as possible, to impose the tax on the final consumer, and not on the producer. Hence the unquestionable advantage of direct taxation.

This brings us to the financial question, which possesses the greatest practical interest at the present time. What is to be the future of indirect taxation?

Indications are not wanting that some Tory financiers would not be indisposed, if a sufficient popular support could be obtained, to retrace the steps which have been taken by the most enlightened statesmen of both parties, from the days of Huskisson, in the liberation of British trade; but so far (divided as it is in other directions) the Liberal party has presented an unbroken front in hostility to any such designs. But no minister of any political colour could look, in this country, to protective duties as a fiscal resource, and the question is, what is to be done with regard to the articles of large popular consumption, such as tobacco, spirits, and tea (from which we still derive a great part of our revenue), and sugar, which, until lately, occupied an important place in the same list?

The augmentation, or reimposition, of taxes of this description, into which the element of protection may be said hardly to enter, can never, it is to be supposed, be popular; and in the present temper of public men, and of political parties, it may be perhaps safely predicted that, except in the case of some great national emergency, they will be very reluctantly resorted to; nor was the fate of the unhappy proposals, made by the late and the present Governments last session, in this direction, of a nature to encourage their renewal.

As regards the section of the Liberal party represented by the Radical programme, there can at least be little doubt that, so far from resorting to such measures, it is looking rather, while stoutly maintaining the duties on drink, to the free breakfast-table and freer tobacco. These are excellent objects, but in the present state of our finances how are they to be accomplished?

It may be inferred from the language of the Radical programme, that the writers imagine that some readjustment of taxation can be effected by taxing what they call the luxuries of the rich, such as cigars, wine, and costly teas, at the same rate as the luxuries of the poor—common tobacco, beer and spirits, and cheap tea. They are evidently unaware that the cause of this difference is not the malignant influence of property, paralysing the benevolent wishes of governments, but partly to the administrative difficulty, which has

been thought insuperable, of applying to these articles *ad valorem* duties, and partly to the fact that the object of these taxes is not to act as a sumptuary law, but to obtain money, and that if cigars and wine were taxed as heavily as common tobacco and spirits, the revenue would rapidly dwindle to a sum not worth collecting. In the case of tobacco the question is complicated by the protective element, as if the tax of 5s. per lb. were raised still higher, the manufacture of a detestable article would be artificially stimulated. Mr. Chamberlain speaks of a tax of 1,400 per cent. on the poorest kind of tobacco, and of 5 per cent. or 10 per cent. on the highest priced cigars. How can such taxes be equalised? The highest priced cigars cost £10 per lb. in retail. It would be necessary to impose a duty of £100 per lb., at least, on these, making the price of each cigar more than £1. What would be the consumption of these, and what the revenue from them? There is no way of equalising the tobacco tax on rich and poor but by "levelling down." If the Radical reformers will propose a duty of 6d. or 4d. per lb. on tobacco, so as to bring it nearer to the tax on cigars, they will establish some claim to be the friends of the working class, but largely as such a measure would contribute to the comfort and morality of the labourer, there is little evidence to show that the tobacco duties are generally unpopular. The smokers are a small minority of the people, and although, no doubt, they constitute the bulk of the electors, smoking is still regarded by many almost as a vicious indulgence, and is placed in the same category with alcoholic drinks, and considered as a fit subject for penal legislation.

The same argument is often used with regard to wine and beer. Why, it is said, should the poor man be taxed more heavily on his beer, than the rich man on his wine? The answer is twofold. In the first place, the cheaper wines are already taxed far more heavily than beer, and are, indeed, practically prohibited. In the second place, there is no reason for taxing the rich man's wine, as there is not the slightest difficulty in making him pay his full share of taxation by other means.

It may be added that to raise the duties on wine

would only tend to diminish a trade which is already dwindling.

It may, therefore, be confidently asserted, that no transfer of burdens from the working classes to the other classes of society can be effected by a readjustment of the existing indirect taxes.

The only resource left, if it were true that the former class bear an undue share of taxation, is to remit part of the existing indirect taxes which specially fall upon it, and to add an equivalent amount to the taxation which exclusively falls upon other classes.

It may be interesting to see the broad results of this form of readjustment.

Let us, therefore, adopt, for the sake of the argument, Mr. Chamberlain's two main positions in his speech at Hull :—

1. That on their taxable incomes the working class pays $13\frac{1}{2}$ per cent., and the upper and middle classes 6 per cent. of imperial taxes.
2. That local taxation should not be considered in estimating the incidence of taxation on the two classes.

It will be found that, in order to restore the equilibrium on both classes, it will be necessary, on Mr. Chamberlain's premisses, to remit about £12,000,000 of the indirect taxes, and add this amount to the taxation now levied on the upper and middle classes.

These are the figures on Mr. Chamberlain's estimate :—

	Taxable Income.	Present Taxation.	Per Cent.	Future Taxation.	Per Cent.
	£	£		£	
Upper and Middle Classes	639,000,000	38,000,000	6	50,000,000	7·80
Working Classes	203,000,000	27,000,000	$13\frac{1}{2}$	15,000,000	7·34

Such a measure would enable the Radical Chancellor of the Exchequer to remit the whole of the tea, coffee, and miscellaneous duties, and two-thirds of the tobacco duties.

In what form the £12,000,000 should be added to the taxes on the upper and middle classes is a much more difficult problem. The method indicated by Mr. Chamberlain is some scheme of graduated taxation—of taxation which increases in proportion to the amount of the property taxed. Mr. Chamberlain appears to think that this might assume the form either of an income tax, a death tax, or a house tax.

The principle of progressive taxation, which has been a favourite idea with the schools of continental socialism, is one which it is impossible to discuss within the limits of this paper. Nor, indeed, is it necessary. The question has been so thoroughly dealt with in past controversies, that there is little new to be said about it. Even Mr. Mill, who favours some scheme of limiting inheritances, observes that such a tax, as applied to incomes, "is a tax on industry and economy, and imposes a penalty on people for having worked harder and saved more than their neighbours. It is partial taxation, which is a mild form of robbery." If the subject has not attracted much attention on the part of English economists, it is because, fortunately, this country has, until lately, enjoyed a comparative immunity from the economic heresies which have sometimes threatened the foundations of society on the continent; but it is needless to say that the system in question is altogether at variance with the four rules of taxation laid down by Adam Smith.

In some form or other, graduated taxation, in the sense of unequal taxation, is inevitable in all highly taxed countries, and exists in practice with us. The income tax and the death duties are instances. But there are solid objections to its adoption in a form so liable to abuse as that of a progressive increase in the percentage of taxation on income or on property. The aim of governments should always be to encourage the motives which promote industry and economy; and there can be no more disastrous folly than to regard wealth, as the commercial classes were regarded in the Middle Ages, merely as a fit subject of fiscal rapacity.

The precedents cited by Mr. Chamberlain in favour of his proposals are of a very ominous kind. He appeals to

the example of Mr. Pitt at the height of the French war, of the United States at the close of their death struggle with the South, and of Prince Bismarck in still more recent times. It is something new for English financiers to borrow their ideas of taxation from the desperate expedients of the governments of countries wasted by war and the crushing burdens of military expenditure.

But whether recourse be had to this, or to less questionable means of readjusting taxation, the task of imposing £12,000,000 more on the class which already pays the income tax (for it would be impossible to extract much more from the lower middle class) will be found no easy one.

The situation is serious enough without these exaggerations.

Fortunately we have seen, that while so large a part of the taxes paid by the working classes affect articles which cannot be considered as necessaries of life, there can be no pretext for the argument that such a gigantic transference of existing burdens from one class to another is required in the interests of fiscal equity, or of policy; but, nevertheless, they are so full of anomalies, so unequal in their incidence on individuals, and in some cases so exorbitant in amount, and wasteful in collection, that it is impossible to regard their permanence as a part of our fiscal system, with any degree of satisfaction.

Again, if the estimates of the national income on which our calculations have proceeded are approximately correct (and this, it must be remembered, entirely depends on the soundness of a view which is opposed to that of Mr. Mill, as well as of Mr. Dudley Baxter and Mr. Leone Levi), there is not at present reason to fear that, as compared with that of other countries, the taxation of the United Kingdom is disproportionately large; but that it is larger than it need be and than it ought to be, and that its tendency to a progressive increase, in the face of a falling trade and diminished rentals, is a very serious danger, are equally indisputable.

The preceding calculations have been made on the accounts of the year 1884, and it may safely be predicted that when the financial confusion of the present year has disappeared, and

the normal budget of the future emerges from it, we shall find that the figures which have been taken are largely exceeded, and that while some branches of revenue, owing to the prevailing depression, have diminished or remained stationary, the expenditure has considerably increased.

With this prospect before us, and bearing in mind the precarious nature of the foundations on which the bulk of our taxation, as it affects five-sixths of our population, at present rests, the time has surely arrived when the financial policy of the country should receive more attention than has of late years been given to it, and not be wholly neglected by our younger politicians.

Let us, at least, look the facts fairly in the face. Out of the £72,000,000 which are annually taken from the British taxpayer in imperial taxation alone, £36,000,000 are already paid by not more than one-seventh of the people. If, as is possible, some attempt is made in the present Parliament to give effect to the first instalment of the Radical programme by abolishing the duties on tea and coffee, it is not likely that it will be accompanied by any proposal to supply their place by taxes which fall directly on the class which now principally pays them. The remission of the tea duty would then mean an addition of something like another £4,000,000 to the £36,000,000 already reached. The recent additions to the charges for the services, and for national defence, together with the general growth of expenditure since 1884, will probably be found to have raised the total imperial outlay considerably above the figures of £72,000,000 taken for that year. This increased charge will also have fallen on the same small section of the people. Simultaneously with this steady growth of national liabilities and of Imperial taxation on a limited class, the growth of local burdens will proceed at a still more rapid rate, if the future is to be measured by the past, and if the cherished designs of what is called State Socialism should be only partially realised. The last most unhealthy symptom is to a great extent concealed by the heavy borrowing on the part of local authorities, for objects which could not have been attained if their cost had been thrown upon the rates. More than £50,000,000 have been raised by loan during the last

four years for local (municipal) purposes, and the amount of local indebtedness of all kinds at the present time is estimated at £160,000,000, the interest on which cannot be much less than £6,000,000 per annum. Three-fifths, at least, of this large and rapidly-increasing burden falls upon the same small class, representing what Mr. Gladstone calls "property." The growth of this branch of taxation may be seen from the valuable work on Local Taxation by Messrs. Wright and Hobhouse, which shows that while, between the years 1867-8 and 1879-80, the burden on the taxpayer only increased 9·6 per cent., that of the ratepayer advanced 56·4 per cent.

Even if, therefore, the remission of the tax on tea, on grounds of general policy, should be allowed to pass without some such attempt, fiscal equity will certainly require (if the tobacco duties should ever be reduced) that some form of direct taxation should be substituted for them, which would provide for a reasonable contribution from the working classes towards the national revenues.

This is a question to which the financiers of the rising generation cannot too soon direct their attention, if the present scale of expenditure is to be maintained and increased, for it is impossible to regard without anxiety any one of the three resources, on which alone reliance can now be placed, for any Imperial taxation falling on at least 30,000,000 people.

It can hardly be doubted that a considerable part of the beer, and certainly of the spirits, consumed at present, is in excess of the legitimate requirements of the population, and it is at least probable that, with the advance of intelligence and morality, the revenue derived from those sources may tend to decline, while, for the reasons already given, a large reduction of the tobacco duties is a reform on many grounds so desirable, that if it ever became the subject of a popular demand it might be difficult to resist it. This state of things imparts an element of great insecurity to the finance of the future.

No one but the most determined optimist can suppose that the growth of taxation, if continued at its present rate, will not in a very few years outstrip the growth of the

national earnings, and that the people of this country will not be subjected to a severe strain.

This may be borne again, as it has been borne before, during periods of public excitement, when great efforts are required to sustain the national honour or existence, or even for some temporary object of national ambition; but if such a state of tension were to become the normal condition of English life, and the people of this country were to be perpetually liable to still further demands upon them, for still heavier sacrifices, in the event of any of the sudden emergencies to which they are now constantly exposed, it could not fail to be a source of grave peril to the stability of whatever form of government conducts its administration. Democracies which cannot secure the material prosperity of a people have no better chance of permanence than other forms of government.

One thing, at least, is certain. Whatever may be the effect on our political institutions, we shall not solve the social problem, nor succeed in raising the general condition of the people to any adequate level.

It was a profound remark of Mountstuart Elphinstone, that "most mistakes in politics arise from the ignorance of the plain maxim, that it is impossible for the same thing to be and not to be."

In other words, it is impossible for a country with a national debt of £750,000,000, and a military and naval expenditure of £30,000,000, to secure for the working class of its people the same standard of living, as in countries with equal or greater natural resources, and without war debts and war establishments.

Of all the dreams in which modern Radicals indulge, there is none so idle as that any country, and least of all an old and thickly peopled country such as England, with a limited territory, can be a great military power, rivalling in its schemes of aggrandisement and influence the fighting organisations of Europe, subjugating and ruling, and aspiring to civilise, vast continents of subject races, and at the same time accomplish the very different task—requiring all its energies, all its available wealth, and its highest ability—of "raising the condition of its people," and securing

to the children of toil their due share in the reward of labour.

So long as England is content to form a part of a political system, such as that which now prevails on the continent of Europe, and which is little better than an armed camp, all hope of effectual social progress must be set aside.

This is clearly perceived by observers on the other side of the Atlantic.

In his recent work on the "Distribution of Products," Mr. Atkinson, of Boston, writes (p. 73) :—

"In the grand competition of the world, which now turns "on a cent a bushel, or a quarter of a cent a yard, or a "fraction of a penny on a pound of iron or steel, no nation "which bears the burden of standing armies, like those of "Germany, France, Italy, Austria, and Russia, can hope "to enter into successful competition with England or the "United States, where the whole English-speaking people "take advantage of their position, and serve the nations of "the world with goods at low cost, in which all who have "joined in the work have made higher wages than can be "earned in any of the countries named. The commerce of "the army-burthened nations with others will be destroyed by "their own restrictions. Nations can only be ruined by their "own burdens—then what may come? Their own resources "will not suffice to sustain their armies, but with the burden "of their armies upon them they cannot engage in competi-"tion with England or America; their product will be small "and insufficient, their wages very low in their rate, barely "capable of buying enough to sustain life, if even for that, "while their cost of production as a whole must be very "high."

"It is difficult to foresee the course of events. These "armies are as impossible to be disarmed, as they are in-"capable of being sustained, without revolution and destruc-"tive war? What will be the end?"

He adds the significant warning, "While other nations prepare for war, we prepare for work."

There is this fatal and incurable weakness in the scheme of financial reform of the modern Radicals. They assume that the class to which they incessantly appeal may

be reconciled to a progressively increasing expenditure by a "readjustment" of taxation.

Doubtless the sum now raised from tea and tobacco might be added to a revised income or property tax or death tax on a graduated scale, and there might be little difficulty in reconciling those who now pay the one and would be altogether exempt from the other to such a transfer of their burdens; but if it is imagined that a sum of £70,000,000, on the very moderate estimate already given, rapidly advancing year by year, as it undoubtedly would (if half the measures of "social co-operation," discussed so lightly by this school of politicians, were adopted), to a much larger sum, can be raised by any "adjustments" on what is called the "property" of about 5,000,000 persons without a disastrous recoil on the interests of the working classes —there can be no greater mistake.

Such a scale of taxation, however adjusted, would infallibly retard the growth of the national wealth, and place our commerce and industry at a further disadvantage, in competition with the increasing rivalry of younger and freer communities, while if the naked principle of graduation be introduced into our fiscal system, its uncertainty and infinite liability to abuse would dangerously impair the sense of security which is essential to prosperous enterprise.*

It may be thought by some, that the extraordinary rapidity with which our wealth and resources have increased during the last forty years will be continued in the period now before us, but very little reflection will show that there is no solid foundation for such an opinion.

The concurrence of causes which led to those extraordinary results is known to every one. The adoption of the free trade policy at a time when our manufacturing supremacy gave us an undisputed start in the race of competition, the increased supplies of gold between 1850-60, the rapid development of the railway systems of the world, the substitution of steam and iron for sails and wood, the invention

* I am aware that Mr. Giffen in his essay on the Reduction of the National Debt, has expressed the opinion that an annual revenue of £220,000,000 might be raised without diminishing our prosperity. I can only regret my entire inability to agree with so eminent a statist, and so able a writer.

of the telegraph, the multiplication of the instruments of credit—all these causes combined to give to the period in question an abnormal and exceptional character.

Such a combination of propitious circumstances can hardly occur again, and no sober estimate of our future progress can proceed on such a conjecture.

Yet it is upon this slender and irrational hope, that all the speculations and all the programmes of politicians of all parties are now founded.

It is not sufficiently remarked how new is the growth of this temper of mind among our leading statesmen.

In the budgets of Mr. Gladstone which preceded 1874 there is evidence that diminished expenditure was ever present to his mind, as among the most important of his financial resources. His memorable proposal in that year to abolish the income tax, could hardly have sprung from anything but the opinion that large remissions of taxation were then still possible, and the first act of his successor, Sir S. Northcote (now Lord Iddesleigh), by which the whole of the sugar duties were swept away (a beneficent measure, for which he has never received sufficient credit) affords a no less striking proof of the entire absence of any sort of belief that we were entering upon a course of largely increasing expenditure. Both these ministers, representing the two great official parties, evidently at that time still shared the views of the free trade school of financiers, that the time had come when the people of this country might begin to reap the fruits of their increased prosperity in a diminution of their fiscal burdens.

Then came the "parting of the waters."

We had succeeded in maintaining a somewhat reluctant neutrality in the American and Franco-German wars; but the re-opening of the Eastern question in 1876 presented an irresistible temptation to enter once more upon a policy of active intervention. What followed is well known. A wave of "Imperialism" passed over the land and swept all before it. The cry of Russian aggression revived again the passions and the fears, the prejudices and the jealousies, which had been dormant since the Crimean war. Poets in easy circumstances wrote of the "canker of

peace," and a country in which 26,000,000 people live on a shilling a day was told that it was becoming rich and selfish. The nobler elements of the national character were invoked, and a successful effort made to extirpate, once for all, the pernicious doctrine of "non-intervention" as unworthy of English traditions.

It was forgotten that among them there are traditions of generations decimated by pauperism and crime, of unnecessary suffering and remediable wrong; and those who could not forget these aspects of the nation's life were denounced as the mean and unmanly advocates of "peace at any price."

So deeply had this spirit entered into the heart of the articulate classes which control the course of policy, that even the succeeding Government—some of whose members, at least, came into power partly on a supposed reaction against it, after a brief lucid interval thought itself compelled to yield to the popular temper, and plunge still deeper into Imperial adventures.

Under the influence of these generous emotions we have renounced our insular advantages, and become a continental power. We have undertaken to defend the frontiers of Asia Minor and the northern limits of Afghanistan. We have made ourselves practically responsible for the government and defence of Egypt. We have entangled ourselves in infinite liabilities in Southern Africa, and are preparing on the dark continent an empire vaster far than any which we have founded in Hindostan. We have annexed New Guinea and Burmah, and sown the seeds of another British India in North Borneo; we have resumed our place in the political system of Europe, and identified ourselves with its rivalries, its ambitions, its alliances, its military aggressions, its social dangers, and the economic convulsions with which it is threatemed.

Probably no country in so short a space of time, has incurred prospective responsibilities of so grave a nature, with such immense complacency.

All this has been done deliberately by both parties in the State, and apparently with the general acquiescence of the people. It is not surprising, therefore, that little has been heard of finance.

The day of payment has not yet arrived. We have been drawing bills on futurity which it will take some time to mature; and meanwhile governments will change, and, after all, future generations must deal with their own problems.

The modern statecraft of "opportunism" scoffs at the claims of posterity.

But can we count on so long a respite? It seems now to be a recognised part of our political creed that, by some unhappy fatality, England is exposed to the undying hostility of a great military power with irreconcilable interests, with which no friendly relations are possible, and whose frontier is rapidly becoming conterminous with her own. Hence the constant risk, and ultimate certainty, of an internecine war, which may add fifty or a hundred millions to our debt, throw the finances of India into desperate confusion, and which, even if attended with the most brilliant success, would leave us nearly where we were before—unless, indeed, saddled with still greater liabilities.

If this is the prospect before us, and these the conditions of our future national life, there is no very evident limit to the demands which may be made on the national resources. Ireland, Egypt, and India—all have to be heavily reckoned with in future budgets; and the only chance of lightening the strain will be to throw over internal reforms, and revert to a scale of domestic expenditure more suitable to a country struggling with financial difficulties.

At least, then, let us not delude the working classes by dangling before their eyes the prospect of better times and lightened taxation. Let us not deceive ourselves or them, by thinking that we can at once gratify an Imperial ambition, and raise the standard of life of our labouring population to the level of that enjoyed by other people of our own race, and speaking our own tongue.

It will be the standard of the past, and not of the future, —of the old, and not of the new world.

The men who laid the foundation of the free trade policy shared no such illusions. They knew that in the present state of continental Europe, no hope of the healthy growth of free institutions, or of the material prosperity of the people, could possibly exist; they thought that, being

more than strong enough to defend ourselves, our military efforts might be confined to purposes of self-defence, and that by concentrating our energies on the arts of peaceful progress, by husbanding our resources, by cultivating commercial relations with all countries in an international spirit of cordial co-operation, instead of insular self-complacency—above all, by identifying ourselves as far as possible with communities whose objects are the same as our own, a combination might in time be formed which might be strong enough to resist the contact of barbarism, and withstand the possible rivalry of decaying empires. They may, perhaps, be excused, if they also thought that, until some greater progress had been made in the work of governing ourselves, our inherited burden of governing remote and alien races, whom we can neither conciliate nor comprehend, was sufficient for our strength, without fresh additions.

In the light of recent history this political forecast certainly seems strangely sanguine, but it was, at least, consistent and logical, and it had its root in sound reason and common sense.

But if the hopes of those who thought that it might have been England's destiny to lead the way towards this great deliverance can hardly now be fulfilled, the progress of humanity will not be long arrested by the default of a particular people, and it may be, if the fatal seed of civil discord is not already sown, that the children of our own race may still be guided by other hands into the land of promise.

This, at least, is the vision of a not distant future, even now discernible, as it is pourtrayed by one who is no dreamer of dreams, but a cool interpreter of facts.*

"Venture, then, to imagine one hundred million "English-speaking people living in comfort and welfare on "our national domain, even then making use for the neces- "sary purposes of subsistence of only one acre in eight or "ten of our whole area; free from national debt, paying "their national taxes under a well-devised and intelligent "system, meeting their competitors in the commerce of the "world with vast quantities of every kind of produce, and of

* Address by E. Atkinson at Ann Arbor Meeting of American Association for Advancement of Science, 1885.

"manufactured articles which will have been produced by the "application of the best machinery to the greatest natural "resources to be found in any similar area of the earth's "surface. The working people will then, as they do now, "constitute more than ninety in every hundred of the popu- "lation, gaining a constantly increasing product with less "effort or labour in each decade as the decades pass."

"Can the standing armies of Europe be sustained when "the full economic effect and the moral influence of this "nation is thus exerted?"

"Of a truth the swords shall be beaten into ploughshares "and the spears into pruning hooks."

"In our far Southern land, upon the heights around Chat- "tanooga, were many ramparts before which thousands ren- "dered up their lives in order that liberty might be estab- "lished over all our domain."

"Even from death unto life sprang forth the new industry "of the new South; those very ramparts are now the walls of "the reservoirs which supply the free men of that city with "living water."

"So may it be in all lands when men learn to serve each "other in beneficent commerce, and when all the nations of "the earth shall have become interdependent."

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